



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GALLATIN COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

July 26, 2000

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EXECUTIVE SUMMARY
GALLATIN COUNTY
CLIFFORD HIGGINS, SHERIFF
SHERIFF'S SETTLEMENT – 1999 TAXES
JULY 26, 2000

Independent Auditor's Report:

In our opinion, the financial statement presents fairly, in all material respects, the Gallatin County Sheriff's taxes charged, credited, and paid as of July 26, 2000.

Comments And Recommendations:

The Sheriff Should Obtain A County Revenue Bond

The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

Financial Condition:

The Sheriff needs to collect the correct amount on one franchise tax bill in order to pay \$3,402 to the school board.

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable George W. Zubaty, Gallatin County Judge/Executive
Honorable Clifford Higgins, Gallatin County Sheriff
Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the Gallatin County Sheriff's Settlement - 1999 Taxes as of July 26, 2000. This tax settlement is the responsibility of the Gallatin County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted Government Auditing Standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Gallatin County Sheriff's taxes charged, credited, and paid as of July 26, 2000, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we present comments and recommendations, included herein, which discusses the following areas of noncompliance.

- The Sheriff Should Obtain A County Revenue Bond
- The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

To the People of Kentucky

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Honorable Clifford Higgins, Gallatin County Sheriff

Members of the Gallatin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated September 29, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
September 29, 2000

GALLATIN COUNTY
CLIFFORD HIGGINS, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

July 26, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 241,741	\$ 298,703	\$ 1,011,731	\$ 335,833
Tangible Personal Property	57,736	43,816	160,102	493,010
Intangible Personal Property				53,626
Franchise Corporation	33,390	26,705	97,689	
Prior Year Franchise Corporation	3,413	3,061	11,513	
Limestone, Sand, and Gravel	4	4	15	5
Penalties	2,588	3,409	10,753	3,773
Adjusted to Sheriff's Receipt	(1)	3		
Gross Chargeable to Sheriff	<u>\$ 338,871</u>	<u>\$ 375,701</u>	<u>\$ 1,291,803</u>	<u>\$ 886,247</u>
<u>Credits</u>				
Discounts	\$ 3,676	\$ 4,098	\$ 14,205	\$ 14,218
Exonerations	11,669	9,305	33,091	711
Delinquents:				
Real Estate	5,755	7,648	24,087	7,887
Tangible Personal Property	<u>295</u>	<u>224</u>	<u>817</u>	<u>785</u>
Total Credits	<u>\$ 21,395</u>	<u>\$ 21,275</u>	<u>\$ 72,200</u>	<u>\$ 23,601</u>
Net Tax Yield	\$ 317,476	\$ 354,426	\$ 1,219,603	\$ 862,646
Less: Commissions *	<u>13,780</u>	<u>14,676</u>	<u>48,784</u>	<u>36,950</u>
Net Taxes Due	\$ 303,696	\$ 339,750	\$ 1,170,819	\$ 825,696
Taxes Paid	301,089	339,048	1,159,190	818,270
Refunds (Current and Prior Year)	<u>2,874</u>	<u>660</u>	<u>8,227</u>	<u>7,713</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (267)</u>	<u>\$ 42</u>	<u>\$ 3,402</u>	<u>\$ (287)</u>

* and ** See Page 4

GALLATIN COUNTY
 CLIFFORD HIGGINS, SHERIFF
 SHERIFF'S SETTLEMENT - 1999 TAXES
 July 26, 2000
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,501,817
4% on	\$	1,231,335
1% on	\$	10,999

** Special Taxing Districts:

Library District	\$	1
Health District		11
Extension District		18
Soil Conservation District		3
Scenic View District		(20)
Carver's Trail District		29

Due Districts or (Refunds Due Sheriff)	\$	<u>42</u>
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The accompanying notes are an integral part of the financial statement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

July 26, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of July 26, 1999, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bonds which named the Sheriff as beneficiary/obligee on the bonds.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
July 26, 2000
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 1999 through April 24, 2000.

Note 4. Interest Income

The Gallatin County Sheriff earned \$2,793 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

GALLATIN COUNTY
CLIFFORD HIGGINS, SHERIFF
COMMENTS AND RECOMMENDATIONS

July 26, 2000

STATE LAWS AND REGULATIONS:

The Sheriff Should Obtain A County Revenue Bond

Pursuant to KRS 134.250, the Sheriff shall annually, before he proceeds to collect the county levy, execute bond to the Commonwealth, conditioned for the faithful performance of his duties and to pay over in due time to the proper person, as directed by the court, all monies collected by him. This bond shall be approved by order of the Fiscal Court, and when approved, shall be recorded by the Fiscal Court in its minutes and filed by the Fiscal Court with the County Clerk. During our audit, we did not see that this bond was filed. We recommend that the Sheriff have such bond executed immediately for the collection of 2000 taxes. County collections in 1999 for the month of October (the highest collection month) were a little less than \$1.1 million (excluding State collections.) We recommend that the Sheriff have adequate bond coverage for his tax collections.

Sheriff's Response:

We filed on 9-29-00.

County Judge/Executive's Response:

Executed bond today 9-29-00.

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES:

The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements.

In addition, management has considered additional costs when setting total employee salary limitations and has decided to limit the number of personnel; and therefore accepting the risk for a lack of adequate segregation of duties.

Sheriff's Response:

I understand.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable George W. Zubaty, Gallatin County Judge/Executive
Honorable Clifford Higgins, Gallatin County Sheriff
Members of the Gallatin County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Gallatin County Sheriff's Settlement - 1999 Taxes as of July 26, 2000, and have issued our report thereon dated September 29, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Gallatin County Sheriff's Settlement - 1999 Taxes as of July 26, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Obtain A County Revenue Bond

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Gallatin County Sheriff's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

Honorable George W. Zubaty, Gallatin County Judge/Executive
Honorable Clifford Higgins, Gallatin County Sheriff
Members of the Gallatin County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 29, 2000

